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Leadership Competency Series

Morals for a good business

Principals of business go hand in hand with sound ethical standards in running any enterprise, writes Chandramowly

THE hard lesson we are learning is: Ethics is no longer a luxury; it is the base that underpins the success of organisations.

It is no accident that the first recipient of the Living Economy Award based on Business Ethics was Judy Wicks and her White Dog Cafe in Philadelphia. In running this restaurant with $5 million in annual revenues and 100 employees, Wicks' caring hand reached into every corner of what a living economy would encompass: the organic meats raised by local farmers, the living wage she aims to pay even to dishwashers, the 100 percent wind power that runs the place, the 10 percent of profits given to charity, and the cooperation with would-be competitors. Wicks said "Business is about relationships more than money. At the White Dog, we try to increase the capacity to care."

With this sample of an organisation built on principles of business ethics, if we take a bird's eye view of the 2002 occurrences, it can reflect the reality. We see that the year was spurred by headlines of business scandals, diminished investor confidence and raised concerns about the erosion of corporate responsibility, and multinational corporations collaborating with corrupt and ineffective practices.

It would be disheartening, if we could only see a series of dismal ethics failures. We also see here at the threshold of the New Year, a silver line of hope offered by emerging corrective measures and increasing public outcry for ethical accountability in organisations and governments.

Business ethics

Business ethics means is a body of principles or standards of conduct that govern the behavior of individuals and groups. Most organisations struggle to maintain their ethics and operating culture systems. They know for sure that unattended, these systems can drift and impact critical processes and organisational health. Effective management of business ethics will lead to long-term business results, employee/customer and satisfaction.

Business scandals

In an increasingly interdependent economy, business decisions affect everyone. But, the decisions that are based on sound ethical judgment will have most favourable and beneficial results. Business houses are subject to constant surveillance by the society and the state. Even before Enron-Andersen fiasco, a series of new financial earthquakes, with their epicentres in the US, have begun to wreck havoc on international investors. WorldCom bucked under a $3.85 billion accounting debacle sending the market to their lowest level since 1998. Merk did not account for $12 billion worth of sales. Xerox, is said to have bribed Indian officials to get government contracts. A study reported that of the Fortune 500 companies, 115 companies (23 per cent) had been convicted of at least one major crime or paid penalties for serious misbehaviour.

Ethics versus performance

Leading business schools and management experts, organisation success stories, have all stressed on the risks associated with blatant ethical failures and their consequences. While the consequences are glaringly clear, the biggest impact of business ethics is on organisational performance. The general reason for unsatisfactory performance emanates from operating culture.

Research says, the leading causes of many organisational problems like, customer dissatisfaction, employee turnover, ineffective quality improvement and training efforts, failed mergers and technology projects, weak innovation, and failed product development — all have been linked to the operating culture.

Operating culture can be attributable to over half of all documented quality costs (costs of poor quality). If quality costs for world-class organisations run between 10 and 15 per cent of the total sales revenue, the associated operating culture/ethics component in the best world-class companies is costing companies billions annually.

There is a human tendency in management to seek single cause for failure when multiple causes are at work. In such instances blaming failure on "poor leadership", "poor employee execution", or "market externalities", may be convenient politically and identified scapegoats can be beheaded, but in reality they rarely fix, change, or improve anything.

A major root cause of sub-optimum performance in organisations can consistently be traced to patterns of business ethics failures within the operating cultures. The ability of organisations to manage ethics at this micro level is a process capability that yields significant economic returns. Finding the causes is not easy, and usually it requires professional diagnostics. When these causes are identified and corrected, ethical processes improve and performance improves too.

The linkage

After the easy fruit is gleaned from a new technology or process all that is left to improve is the people themselves. But, people are more than just a collection of skills and capabilities. People are also a "system" with a process capability of their own. This people system is also referred to as the social system or culture of the organisation. This culture normally is so powerful that it ultimately has more impact than management regarding what, where, and when things get improved.

Hence the key to significant improvement has been and always will be the supportive capability of the culture to manage the improvement. This culture component has a unique relationship to ethics. It not only benefits from ethics management, but also is utterly dependent on it!

Business results and ethics

The domain and economic imperialism is worldwide. Nevertheless, the freedom to operate is not a license to abuse. The market economy requires and promotes both crime and corruption because it needs a change in the value system where money becomes supreme.

Of course, profit has to be the primary concern of any business. Without the profit concept, business is ludicrous. While profit may be the overall objective for a business, two legs support the "body" for long-term run of success. One, the methods employed to achieve profits have to be ethical and moral. Two, the company must look around for some ways and means to return to the society some endowments for the welfare of everyone.

Value based organisations survive and flourish for a longer time. In 90 per cent of the ethical problems we face, we know what we should do. The real question is whether we are willing to do the right thing when it is likely to cost more than we want to pay. With everything from insider trading to employee theft on the rise, it is no wonder that businesses are beginning to focus on the impact of ethical leadership.

The dilemma

Managers are forced to decide on issues where there are arguments on both sides, a problem that makes ethical 'decision-making' very difficult. Kenneth Blanchard and Norman Vincent Peale, authors of The Power of Ethical Management — points out three questions you should ask yourself whenever you are faced with an ethical dilemma. **Is it Legal? Is it Balanced? Is it Right?** Most of us know the difference between right and wrong, but when push comes to the shove, how does this decision makes you feel about yourself? Are you proud of yourself for making this decision? Would you like others to know that you made the decision?

Developing company Ethics Policy

Good business ethics is the ability to reason and operate within a sound ethics system — with clarity, consistency, and relevance — in support of group performance, while meeting the needs of all participants and interested parties. Ethical behaviour must be organically developed at all levels simultaneously, it must be useful to the organisation with everyone involved, and its "quality" or conformance to philosophical requirements of clarity, consistency, and relevance, must be measurable.

A well-defined ethics policy along with an outline of related standards of conduct provides the framework for ethical, moral behavior within a company. The benefit is: higher employee morale and commitment leading to mutual long-term benefits. According to Blanchard and Peale, you can base your policy on five fundamental principles. **Purpose**: which combines both vision and values to be upheld in business. **Pride:** This builds dignity and self-respect. **Patience**: since a business must focus on long-term versus short-term results, one must develop a certain degree of patience. **Persistence**: Being committed, standing by the given word. **Perspective:** In a world where there is never enough time to do everything we need or want to do, it is often difficult to maintain perspective.

The main reason for having ethical policy and guidelines is not to provide a cookbook solution to every practice-related problem, but to aid in the decision-making process for situations that involve ethical questions.

Measuring success of business ethics

When societal values are deteriorating, maintaining high ethical standards in accounting and business becomes increasingly difficult. People will undoubtedly ask if everyone else is cheating, then how an ethical person can possibly succeed. Nevertheless, the real question is how does one measure success?

In 1923, a very important meeting was held at the Edgewater Beach Hotel in Chicago. Attending this meeting were nine of the richest men in the world:

(1) Charles Schwab, President of the world's largest independent steel company; (2) Samuel Insull, President of the world's largest utility company; (3) Howard Hopson, President of the largest gas firm; (4) Arthur Cutten, the greatest wheat speculator; (5) Richard Whitney, President of the New York Stock Exchange; (6) Albert Fall, member of the President's Cabinet; (7) Leon Frazier, President of the Bank of International Settlements; (8) Jessie Livermore, the greatest speculator in the Stock Market; and (9) Ivar Kreuger, head of the company with the most widely distributed securities in the world.

Twenty-five years later, (1) Charles Schwab had died in bankruptcy, having lived on borrowed money for five years before his death, (2) Samuel Insull had died virtually penniless after spending some time as a fugitive from justice, (3) Howard Hopson was insane, (4) Arthur Cutten died overseas, broke, (5) Richard Whitney had spent time in Sing-Sing, (6) Albert Fall had been pardoned from prison so he could die at home, (7) Leon Fraizer, (8) Jessie Livermore, and (9) Ivar Kreuger each died by suicide.

Measured by wealth and power these men achieved success, at least temporarily. Making a lot of money may be an acceptable goal, but money most assuredly does not guarantee a truly successful

life. How do you measure success?

Business ethics requires a philosophical commitment to "internal consistency". Internal consistency is one of the most demanding aspects of business ethics, but also the most rewarding. This commitment must come from top management in the form of resources, training, and direct involvement. Business ethics goes beyond the scope of most ethics programs to make the needed connections between ethics, logic, human nature, utility, and successful human interaction.

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